Husky Oil/Annual Report 1975

ANNUAL MEETING:

The Annual General Meeting of Shareholders of Husky Oil Ltd. will be held in the Château Champlain Hotel, in Montreal, Quebec, on April 14, 1976. Formal notice of this meeting and proxy material are enclosed.

FORM 10-K

Copies of the Company's 1975 annual report on Form 10-K filed with the United States Securities and Exchange Commission, including financial statements and exhibits, will be provided without charge to shareholders who send written requests to the Office of the Secretary of the Company at Husky Oil Ltd., 815 - 6TH STREET S.W., CALGARY, ALBERTA, CANADA T2P 1Y1.

Highlights of Operations

Financial

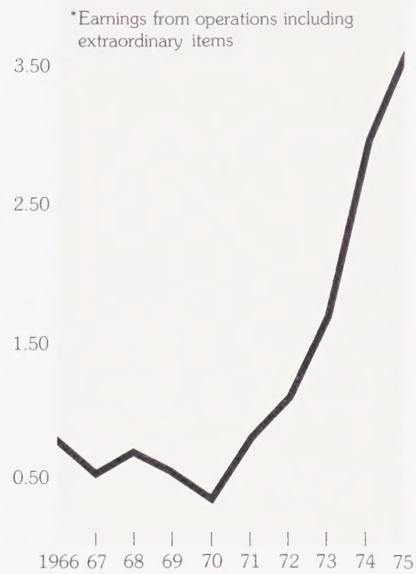
	1975	1974
	thousands of dollars	
Sales and operating revenues	**$454,391**	435,306
Working capital provided by operations	**78,016**	62,368
Net earnings	**36,018**	29,479
Net earnings per common share (in dollars)	**3.64**	2.98
Capital expenditures	**68,131**	61,881
Working capital at end of year	**39,746**	33,972
Long-term debt at end of year	**100,473**	100,599

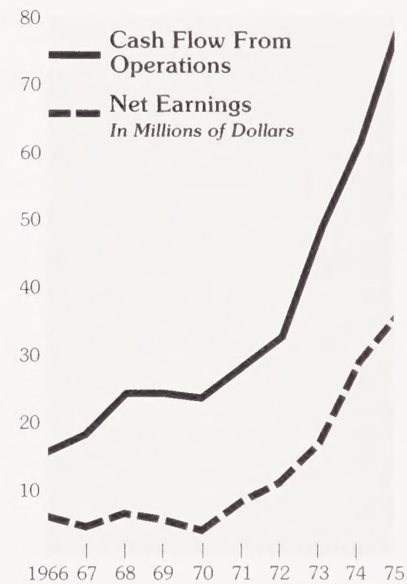
Operations

	1975	1974
Gross crude oil and gas liquids production (barrels daily)	**51,782**	51,067
Net crude oil and gas liquids production (barrels daily)	**43,949**	43,015
Gross natural gas production (MCF per day)	**74,511**	77,855
Net natural gas production (MCF per day)	**58,994**	65,460
Refinery runs (barrels daily)	**56,220**	59,116
Refined product sales (barrels daily)	**60,541**	63,958
Number of sales outlets	**1,115**	1,163

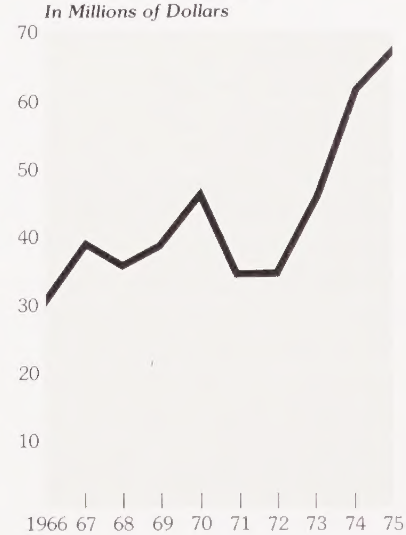
Year in Brief

Net Earnings Per Share* In Dollars





Capital Expenditures
In Millions of Dollars



Letter to Shareholders

In reviewing the progress of 1975, the first things that come to mind are the efforts and contributions of our employees. Husky, like any company, can only be as good as its people. We are very proud of the people — Husky employees — whose loyalty, hard work, innovativeness, energy and dedication make possible the success of our programs and the achievement of our goals.

1975 was a successful year for Husky in all phases of its operations. Increases in cash flow have allowed for a continued strong effort in exploration and for expenditures designed to ensure continued growth in all segments of our activities.

A good measure of our success can be attributed to following a policy of operating as an integrated company with a wide geographic base. Continued growth as an integrated company remains as one of our priorities for future development.

Husky's increased exploration activity in recent years is beginning to show results. We have recently reported discoveries in the North Sea, offshore the Philippines, and in New Mexico. The shallow gas potential in Lloydminster and our deep prospects in Wyoming are also examples of these results. Our production volumes in the United States are increasing and a substantial refining project in Lloydminster, Alberta, is underway for completion in mid-1978. This refinery will provide products for our expanding Canadian marketing system as well as an assured market for a significant part of our Lloydminster production.

These developments are all in keeping with our stated corporate goals and objectives. Briefly, these are:

— Maintain or increase our cash flow and sales volumes;

— Reduce our sensitivity to seasonal markets;

— Continue to work towards balancing our production, refining and marketing volumes within both Canada and the United States, even though we are about in balance overall as a company; and

— Ensure that organizationally there is expertise at all levels of management to accomplish both short and long term objectives.

Husky's capital spending plans for 1976 will be directed towards accomplishing these goals. Our budgeted 1976 capital programs are projected to be $69 million. This will be in addition to what will be spent for the Canadian refinery and marketing projects this year. Capital expenditures in 1975 were $68 million, compared to $61.9 million for 1974.

Our corporate results should be viewed from the perspective that inflation is a part of the financial results and earnings increases do not reflect equal real-dollar advances.

Husky's 1975 earnings of $36 million or $3.64 per share, represent a 7.9 per cent return on gross revenues of $454.4 million for the year. In 1974 our earnings were $29.5 million or $2.98 per share which represented a 6.8 per cent return on last year's gross revenues of $435.3 million. This year, Husky's return on average total assets invested was 8.7 per cent compared to 8.3 per cent in 1974.

As North America continues to face declines in domestic production of petroleum together with increasing requirements for imports to meet energy needs, we, as well as our governments, are seeing heavy oil become a more and more important factor in the future supply of petroleum.

It appears that the vast reserves of the Athabasca Tar Sands are becoming economic. Given the economic viability of these reserves, the prospects for recovery of the significant amounts of heavy oil in place in Cold Lake, Alberta, where the oil is slightly less viscous in character, appear even better.

It then follows that the substantial heavy oil accumulations located in the Lloydminster area of Alberta and Saskatchewan, which contain the least viscous of the heavy crude reserves, will be even more economically feasible to recover. Substantial amounts of this oil can be recovered from conventional oil wells and from wells being stimulated by known and tested secondary recovery methods.

The knowledge and technology developed over the years by Husky has led to substantial development in Lloydminster and, in this area, we have the largest inventory of potential undrilled low risk locations in our history. We are presently applying our experience to the recovery of known accumulations of heavy crude in California where large quantities of heavy oil in place have been identified. Husky has expanded its land position and drilling activity in this region. The experience being gathered in

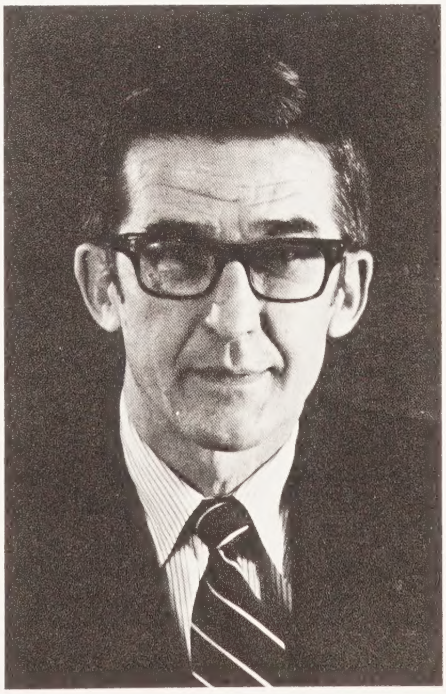
California will be assessed for possible application to Lloydminster and other areas.

The year 1975 saw the enactment of new legislation in the United States to extend controls over the operations of the petroleum industry. On December 22, 1975 the new Energy Policy and Conservation Act was signed into law. Among other things, this legislation established a nation-wide composite average for crude oil prices while extending pricing and allocation controls for a further 40 months. It also provides for a series of escalations in the prices for crude oil over this 40 month period.

In Canada, crude oil and natural gas prices were increased in 1975. Although a good portion of the crude oil increases went to governments in the form of increased royalties and taxes, the producer did benefit to some degree. There is recognition at all levels of government in Canada that natural gas should be priced on an equivalent BTU basis with oil.

It is distressing that throughout the company we are assigning more and more individuals with the sole responsibility of interpreting new government regulations and laws and complying with increased reporting requirements. We find that more and more time of management at all levels is taken up discussing the effects of these new laws and regulations on our operations. Most of this additional time and cost is non-productive and detracts from our operational goals.

It is gratifying, however, to see the "*small beginnings of a public awareness in both Canada and the United States for the need to develop additional energy resources.*" Dialogue is still continuing in far too many places as to who should do future energy development — private enterprise or government. We remind you that historically, it has been private industry, not government, that has been the successful discoverer and developer of energy resources. We are confident that private industry will continue to do so in the future if it is given the opportunity and the economic incentives without brudensome governmental controls.



Our industry has an obligation to present its story to the public. People need to have a better understanding of the facts regarding the risk, tremendous investment and problems inherent in supplying energy to them. Husky is increasing its efforts to communicate this message. We believe the public, including consumer groups, labor unions, news media and the educational community — if given the alternatives in a factual manner — will encourage those in government to make the hard decisions and take the action that is in the best long term public interest.

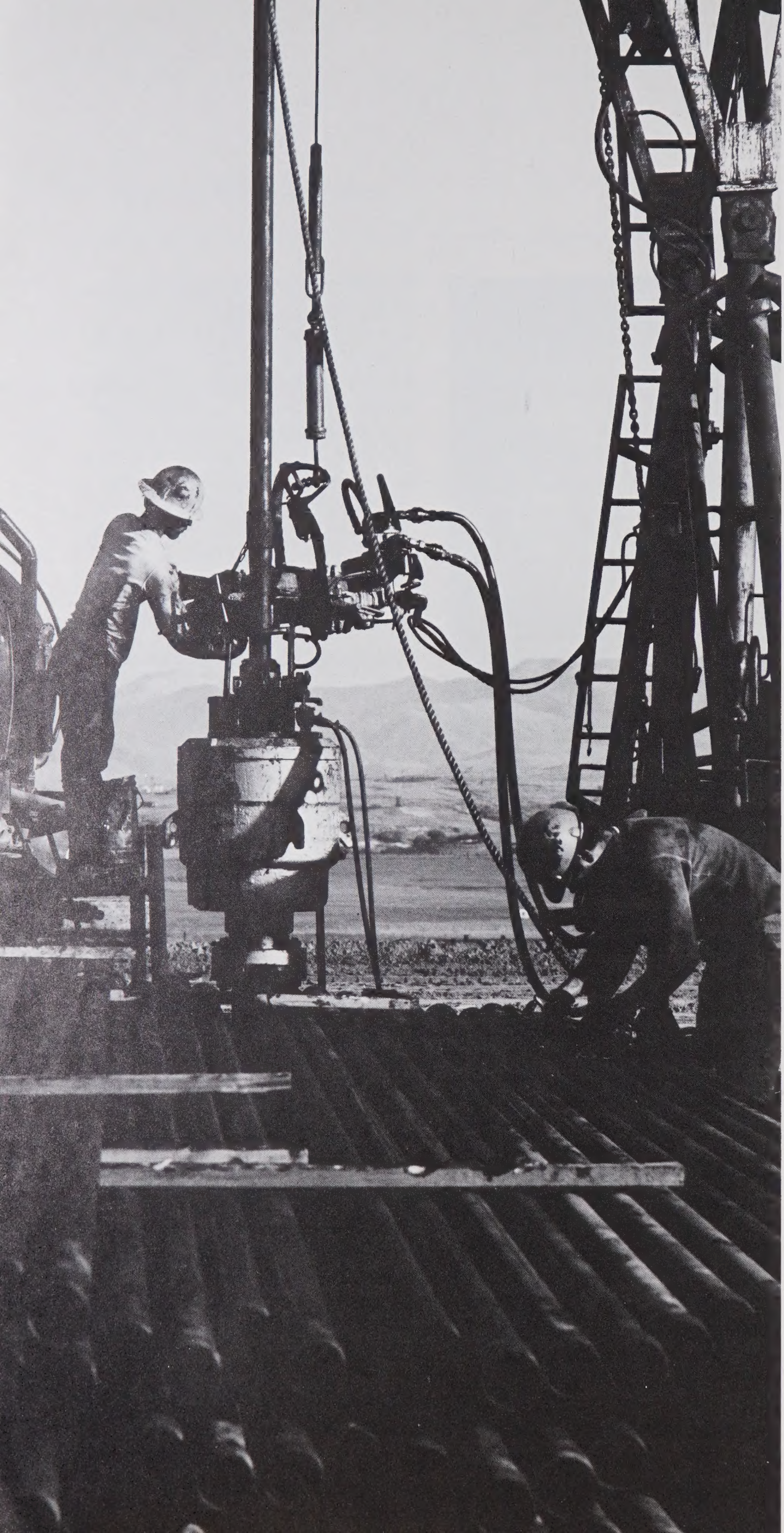
1976 will be a year of challenge for Husky.

Glenn E. Nielson

GLENN E. NIELSON,
chairman of the board

James E. Nielson

JAMES E. NIELSON, *president*



Review of Operations/ Exploration

1975 was a very active exploration year for Husky. In International operations, the company continued negotiations towards additional international petroleum exploration concessions and participated in offshore drilling in the North Sea and the Philippines.

Husky participated in the drilling of two wells in the United Kingdom sector of the North Sea. One of these, located on block 48/12, discovered natural gas. The other well, on block 21/7, was abandoned. The reserves established by the successful well are not economic at current prices.

In the Philippines, Husky, subject to certain carried interests, is a forty per cent participant in a service contract awarded late in the year, covering 1.3 million acres on the North West Palawan shelf. The granting of this concession augments the substantial land position Husky already holds offshore the Philippines. Two wells, drilled in 1975 on concessions granted earlier, were abandoned.

An offshore well, drilled early in 1976 on the 1.3 million acre concession, discovered crude oil. The significance of this well is the establishment of hydrocarbon presence in the area. A detailed seismic program is being conducted to further evaluate the area.

Husky's total international exploration holdings increased during 1975 to 1.6 million net acres in an overall exposure in excess of six million acres. Drilling plans for 1976 include exploration wells in both the German and United Kingdom sectors of the North Sea.

In North America, exploration activities intensified during the year in the

Rocky Mountain area of Canada and the United States. Drilling was conducted in Wyoming, Colorado, New Mexico, Utah, Alberta, Saskatchewan and Ontario. In Park County, Wyoming, a deep test was cased to 18,300 feet and has been shut in pending further testing. The well earned Husky a one third interest in 24,000 acres in the Big Horn Basin and provided the company with a 70 per cent call on all hydrocarbons. Also in Wyoming, an 8,000 foot test in Sweetwater County in the Green River basin earned a 40 per cent interest in 79,000 acres in the Trappers Trail Unit.

In Fremont County, Wyoming, an exploratory well in the Wind River Basin is presently drilling to an objective depth of 18,000 feet in an area known as the Fuller Reservoir. The well encountered encouraging natural gas shows in drill stem tests at about 4,000 feet and 5,000 feet. The well is presently drilling towards its deeper objective.

Husky's Rocky Mountain exploration activity was extended to New Mexico at mid-year. As part of an exploration program, two wells were drilled in Eddy County. An exploratory well in the Scanlon Draw area discovered natural gas in two formations at 9,000 and 11,000 feet. The well was tested at an aggregate rate of 12.8 million cubic feet per day plus 150 barrels per day of natural gas liquids. An exploratory well in the Cass Draw area, also in Eddy County, has been completed and is being tested.

Seismic and data interpretation programs have been conducted on Husky interest acreage in Wyoming, Utah and Nevada. An exploratory well drilled in Utah earned Husky a 37 per cent interest in 60,000 acres in the Paradox Basin where Husky had begun to establish a substantial land position in 1974.

Follow-up exploration drilling continued at Quirk Creek in the southern Alberta foothills where an earlier Husky natural gas discovery was tested at an absolute open flow rate of 44 million cubic feet per day. Offsetting wells to the west and southeast of the original discovery have been drilled. Both of these wells encountered natural gas and were cased to a depth of 10,000 feet. The west offsetting well production tested natural gas from two zones. A pipeline, to transmit gas from the three wells to an existing gas plant, is being constructed.

A farmout arrangement in the Denver Julesberg Basin of northern Colorado, concluded late in 1975, provides for the drilling of 70 wells in the area at no cost to Husky and its partners. The program is designed for two thirty five well phases. Husky will retain an interest in all completed wells. The first well in the program has been drilled and completed as a gas producer.

Exploration for shallow gas in Alberta was intensified during the year with the drilling of five prospects. Gas discovery wells were drilled in the Sedalia, Donalda, Baptiste Lake and Neerlandia areas of Alberta. Exploration plans for 1976 will continue emphasis on this shallow gas exploration program.

In the Lloydminster area of Alberta and Saskatchewan, twenty-two exploratory wells were drilled in the 1975 program. Results included one gas well, three gas wells with oil potential, and ten indicated producers which are to be further tested. Preparations are complete

for a similar exploration program in the Lloydminster area during 1976.

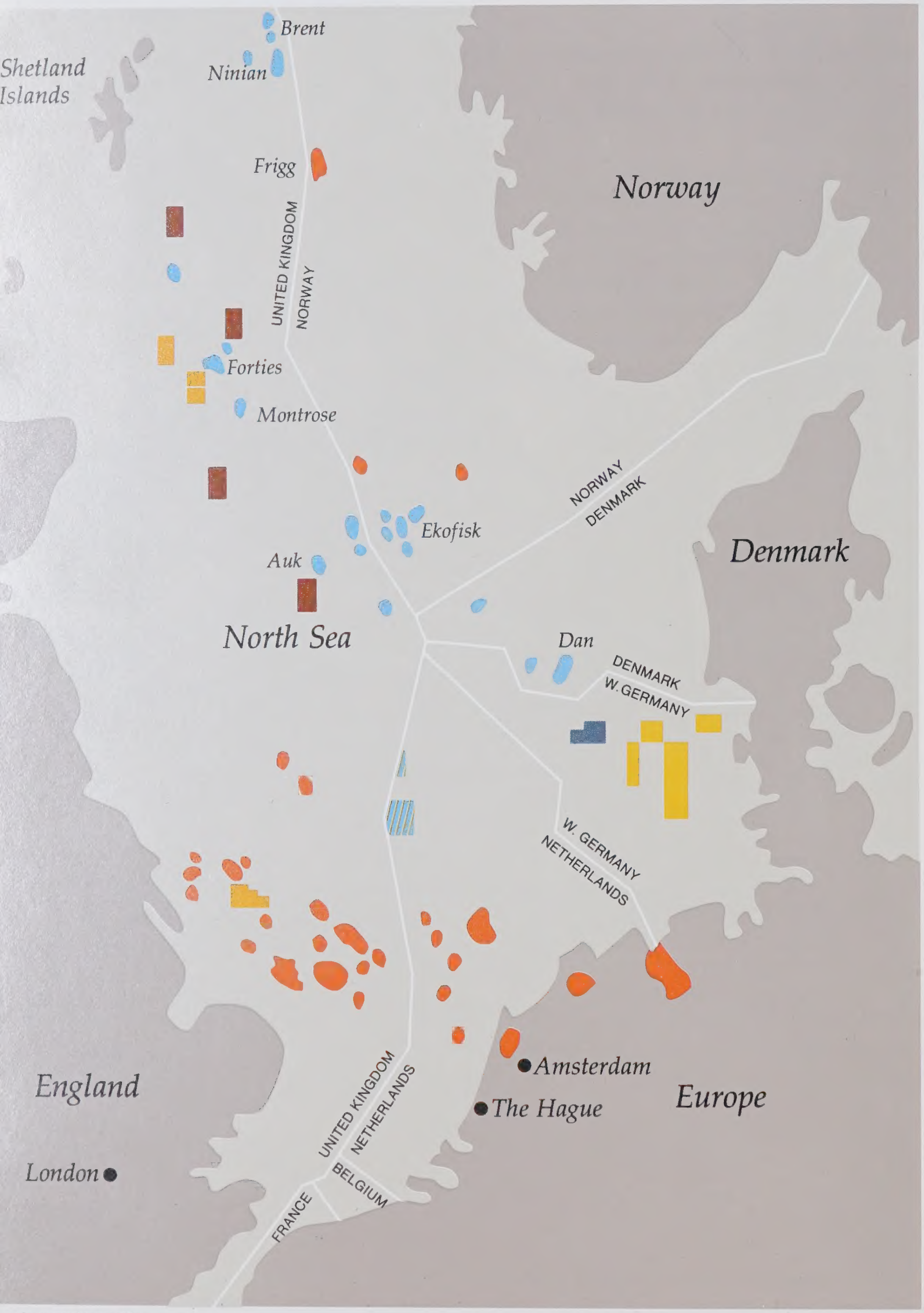
An exploratory drilling program to earn 60,000 acres in Lambton County, Ontario was completed during the year. Two gas wells and one indicated oil well will be further tested and additional drilling of selected prospects is planned for 1976.

Two lease blocks offshore southern California were acquired by Husky and its partners in a lease sale in December.

Of these, primary interest is directed towards Tanner Banks block number 114 which is located on a large structural anomaly. The second block, also on the outer banks, is located on the Santa Rosa platform. The general area is about ninety miles southwest of Los Angeles.

In addition, the company is proceeding with plans to drill an earlier acquired offshore Louisiana block. This drilling is expected to begin early in 1976.

North Sea Acreage Interest



Areas are not shown to scale

United Kingdom Sector 10%
United Kingdom Sector up to 5%
West German Sector 12.5%
West German Sector 15%
Netherlands Sector 15%
Oil Fields
Gas Fields

on December 31, 1975.

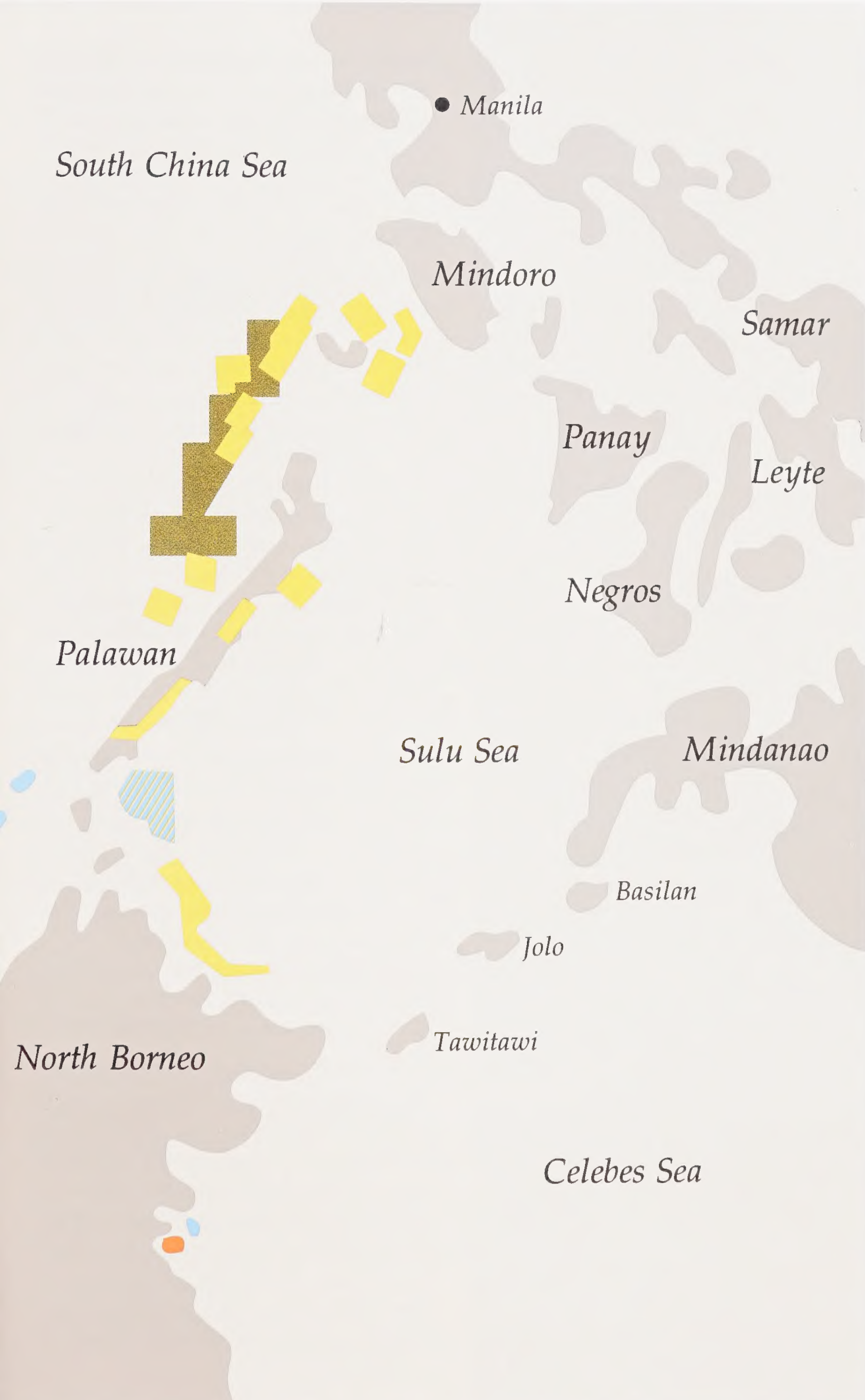
During 1975, Husky participated in a group which acquired seismic and other exploratory data in the Gulf of Alaska and the Bering Sea.

Husky drilled a total of 55 exploration wells in 1975. Results include six oil wells and 16 natural gas wells.

In May, Husky was selected as operator to explore and develop United States Naval Petroleum Reserve Number Four (NPR #4) in Alaska. The reserve, located on the North Slope, is approximately 24 million acres or about the size of the state of Indiana.

This involves a five year cost plus fixed fee contract for seismic and geophysical work and exploratory drilling. Husky will be responsible for the management of this program and related logistical support.

Philippines Acreage Interest



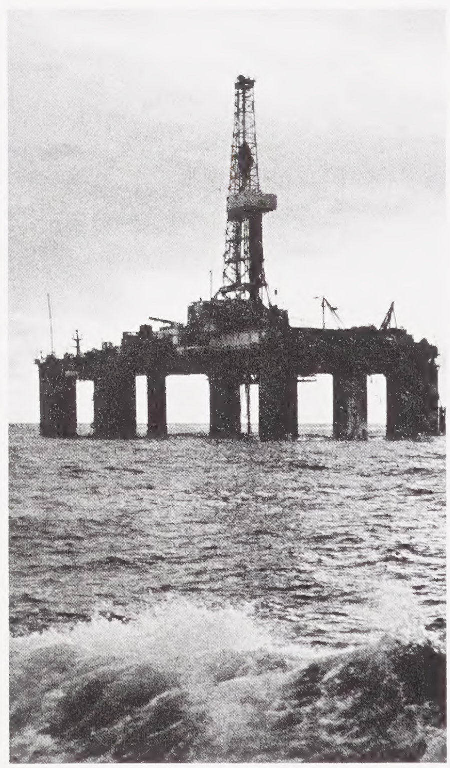
3,206,135 acres

685,305 acres

1,300,000 acres

Oil Fields

Gas Fields



on December 31, 1975.

Production

Husky's gross crude oil production in 1975 averaged 51,800 barrels per day compared to 51,100 barrels per day in 1974. Net crude oil production increased in 1975 to 43,900 barrels per day from 43,000 barrels per day in the previous year.

During 1975, production from some of Husky's high productivity fields in Canada was limited by prorationing as a result of the continuing Canadian Government policy to gradually reduce exports of crude oil to the United States. Our Lloydminster heavy oil production volumes were essentially unchanged for the year. United States net crude oil production increased approximately 10 per cent to an average rate of about 14,400 barrels per day. This increase was spread among the company's Wyoming, Utah and California properties.

Gross natural gas production declined 3.4 million cubic feet per day to 74.5 million cubic feet per day. In the same period net natural gas production declined 6.5 million cubic feet per day to 59 million cubic feet per day. The decline in the net natural gas production is a reflection of increased royalties on natural gas produced in Canada and some normal decline.

The continuing development of our heavy oil capabilities remains a major Husky activity. Early in 1975, Husky entered into a cost sharing contract with the Energy Resources and Development Agency of the United States Government for a Combination Thermal Drive Recovery Project in California. The pilot project, located in the Paris

Valley oil field, is designed to demonstrate the economics and effectiveness of the combination of steam, steam stimulation and an in-situ fire flood in a very heavy oil reservoir. Information obtained from this and other heavy oil operations is added to Husky's overall heavy oil data pool for possible application in other areas.

Heavy oil activity in California included the drilling and completion of 38 wells in 1975. Experimentation with down hole completion techniques and sub-surface equipment was continued.

A total of 125 development wells were drilled in the Lloydminster area of Alberta and Saskatchewan during 1975. Of these, 115 have been cased as commercial producers with very favorable initial production rates. In the Lloydminster program, drilling activity on the Alberta side of the border in a new oilfield named Wildmere has been encouraging. Husky's 1975 development program in Wildmere consisted of the drilling and completion of 39 wells.

As a result of the development drilling programs in the heavy oil regions of California and Lloydminster, Husky has more low risk undrilled potential development locations today than it has ever had in its history.

Net Oil and Natural Gas Production

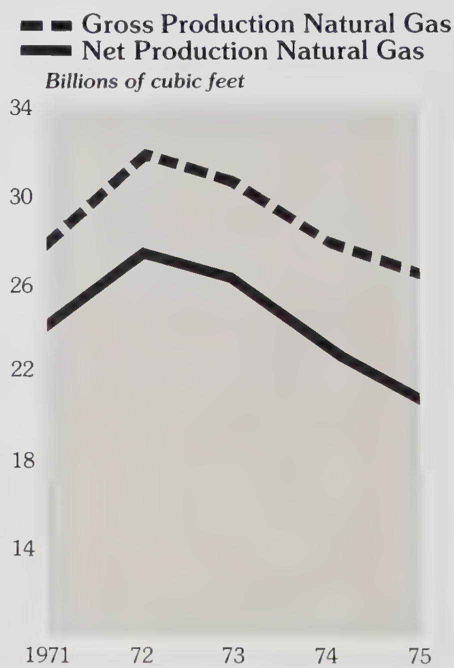
	Oil and Gas Liquids Thousands of Barrels		Natural Gas Millions of Cubic Feet	
	1975	1974	1975	1974
Canada				
Alberta	**2,783**	2,764	**11,910**	14,163
Lloydminster	**7,131**	7,258	**1,707**	1,603
Saskatchewan	**887**	926	**739**	688
Total Canada	**10,801**	10,948	**14,356**	16,454
United States				
Colorado	**566**	537	**125**	43
Montana	**200**	204		
New Mexico	**682**	620	**3,895**	3,837
Texas	**371**	328	**1,041**	1,260
Wyoming	**2,455**	2,383	**1,567**	1,876
Other areas	**967**	680	**549**	422
Total U.S.A.	**5,241**	4,752	**7,177**	7,438
Total	**16,042**	15,700	**21,533**	23,892

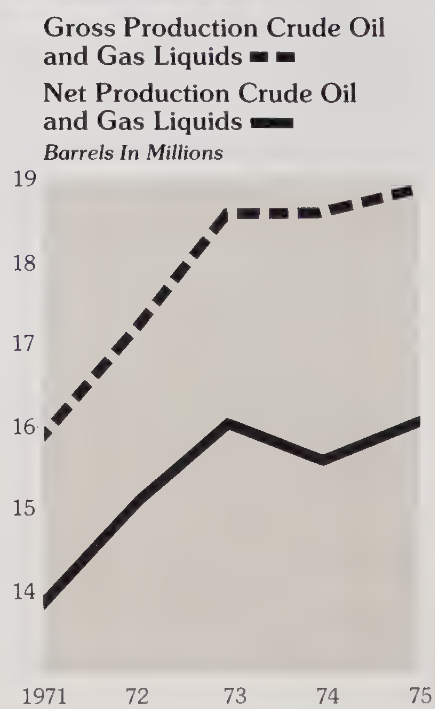
	as at December 31	
	1975	1974
Proven Reserves		
Crude Oil (barrels)	**119,569,000**	115,422,000
Natural Gas (thousands of cubic feet)	**245,678,000**	270,417,000
Probable Reserves		
Crude Oil (barrels)	**27,729,000**	29,307,000
Natural Gas (thousands of cubic feet)	**80,962,000**	44,361,000
Combined Proven and Probable Reserves		
Crude Oil (barrels)	**147,298,000**	144,729,000
Natural Gas (thousands of cubic feet)	**326,640,000**	314,777,000

A Canadian federal government budget introduced at mid-year included an increase of $1.50 per barrel in the average wellhead price of crude oil. The major part of this increase reverted to the federal and provincial governments through royalties and income taxes. Depending on the province in which the production is located, the increase flowing through to the producer of heavy oil was as little as five cents per barrel on old oil and as high as 64 cents per barrel on crude classified as new oil.

At the same time the price of natural gas to be sold domestically in Canada, was set at a $1.25 per thousand cubic feet delivered at Toronto, Ontario. The western Canadian producer receives the Toronto price less the cost of transportation.

As a result of this pricing adjustment, the field price of natural gas increased from its average level of about 45 cents per thousand cubic feet to about 90 cents per thousand cubic feet. A major portion of the increase was absorbed by increased provincial royalties and income taxes.





Husky's 1976 capital budget includes expenditures for the development of light and heavy oil and natural gas reserves throughout North America with particular emphasis on increased production in the United States.

Summary of Wells Drilled in 1975

	Gross Wells			
	Oil	Gas	Dry	Total
Exploratory Drilling	6	16	33	55
Development Drilling	209	16	11	236
	215	32	44	291

	Net Wells			
	Oil	Gas	Dry	Total
Exploratory Drilling	4	13	21	38
Development Drilling	134	8	8	150
	138	21	29	188

Refining and Marketing

Husky's four refineries are located at Cody and Cheyenne in Wyoming, at North Salt Lake in Utah and at Lloydminster in Alberta.

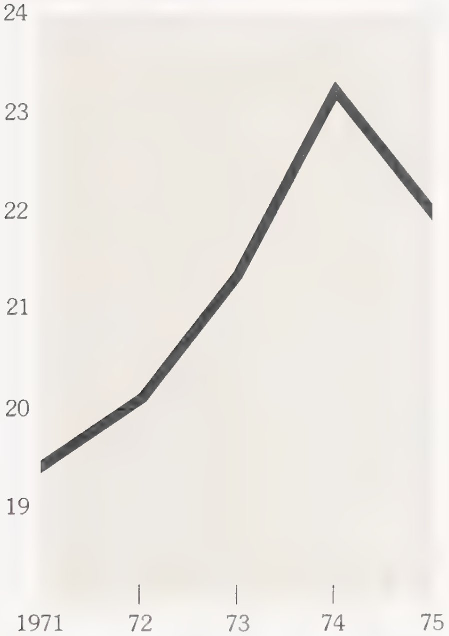
Upgrading, modernization and environmental control programs were completed in recent years at the United States refineries. Each U.S. facility produces no-lead and low lead gasolines as well as a range of other light oil products. Additional specialty products include asphalts at Cody and Cheyenne, and a high quality low sulphur fuel oil at North Salt Lake. The current Lloydminster refinery produces asphalt and heavy fuel oils which are sold primarily in the prairie provinces of Canada.

Total refining throughput in 1975 was 56,200 barrels per day compared to 59,100 barrels per day in 1974. The reduction in volume was the result of a two month strike in the first quarter of 1975 at the North Salt Lake refinery and reduced demand during the year for the plant's low sulphur fuel oil. Total refined product sales declined five per cent in 1975 to 60,500 barrels per day. Light oil volumes were slightly higher than sales for the previous year. Heavy oil and asphalt sales declined in the United States because of reduced demand for these products during the general economic slow-down.

Plans for the construction of a new 30,000 barrel per day refinery at Lloydminster, Alberta, were announced late in 1975. In addition to a full range of light oil products including gasolines and diesel fuels the refinery is designed to produce light and heavy industrial fuels together

Refined Product Sales

Barrels in Millions



with road and specialty asphalts and petroleum coke.

The petroleum coke is to be sold and further processed in a calcining process. The resulting calcined coke is required for the manufacture of aluminum by a major aluminum company for its Western Canadian operations. A long term contract

Refinery Runs

	Thousands of Barrels	
	1975	1974
Refinery		
Cheyenne, Wyoming	**8,752**	8,937
Cody, Wyoming	**3,918**	4,068
Salt Lake City, Utah	**4,063**	4,936
Lloydminster, Alberta	**3,787**	3,637
	20,520	21,578

signed with this company is projected to make the new Husky refinery the largest conventional coking operation in western Canada.

The refinery is expected to be in operation by mid-1978 and will be so designed that its capacity can be increased to 55,000 barrels per day as market conditions warrant. Major processing units for this facility — purchased earlier from a refinery which had been located in East St. Louis, Illinois — are to be dismantled, transported, reengineered and reassembled at the Lloydminster site.

Husky's primary marketing programs in 1975 continued to be directed toward improvement and expansion of our historically economic Car/truckstops, strategically located on interstate highways throughout our market area in the United States and along the TransCanada highway from British Columbia to the borders of Ontario and Quebec.

The Car/truckstop system offers complete one-stop fuel, restaurant, customer and service facilities to the traveling motorist and the commercial trucker.

These outlets are continuing to show an improved level of customer acceptance by owners of recreational vehicles and house trailers. Husky Car/truckstops offer sanitary off-loading facilities, propane and water supply and other general service and facilities sought by the vacationing motorist.

These large diesel and gasoline retail outlets, which provide ample general parking together with large paved surfaces for convenient turn around space for commercial truckers, are fully equipped for complete motoring service and accessories. All Car/truckstops are equipped to provide no-lead gasoline for service to the traveling public.

Husky House restaurants, open 24 hours a day in conjunction with the outlets, are operated to a consistent high standard of food and service.

Recent marketing activity has also included the establishment of a number of self-serve retail gasoline outlets — a current trend in petroleum marketing throughout Husky's retail market areas.

A general program, begun earlier of up-grading and remodeling service stations, as well as Car/truckstops, showed continued progress in 1975.

Areas of Activity/North America

Areas of Active Oil and Gas Exploration

Marketing Area

Refineries

Gate City Steel

Husky Industries

Net Exploratory Acreage Holdings and Rights on December 31, 1975

Oil and Gas Properties Thousands of Net Acres

Canada

Alberta (1)	370
Arctic Islands	121
British Columbia	89
Newfoundland	99
N.W.T. and Yukon	666
Nova Scotia	153
Ontario	38
Saskatchewan	264
Total Canada	1800

(1) Includes a 50,000 acre Athabasca tar sand lease

(2) Subject to issuance of leases

United States

Alaska (2)	221
Rocky Mountain Area	885
Southwestern States	51
Other areas	16
Total U.S.A.	1173

Foreign

North Sea	144
Sicily	12
Philippines	1410
Total Foreign	1566

Mining Claims and Permits Thousands of Net Acres

Canada

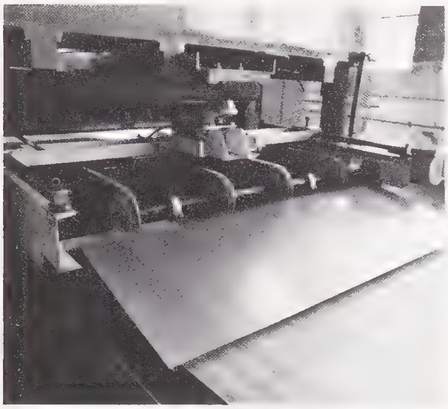
N.W.T. and Yukon	5
Saskatchewan	22
Total Canada	27

Areas are not shown to scale

Subsidiaries/ Gate City Steel

Gate City Steel, a wholly-owned subsidiary of Husky, is engaged in warehousing, distribution and processing of steel in the United States from twelve plants in the midwest and Rocky Mountain regions.

Gate City's operations were affected by the economic down-turn in the United States in 1975 and sales and earnings before taxes declined from the previous year's historic highs. Gate City Steel's operations were showing improvement at the year end



and 1975 was the second best year's performance in the company's history. Sales were $61.8 million for the year compared to $79.3 million in 1974. Earnings before taxes were $6.1 million compared to $7.6 million a year earlier. In a period of reduced demand for its products and services Gate City's performance was ahead of the industry average.

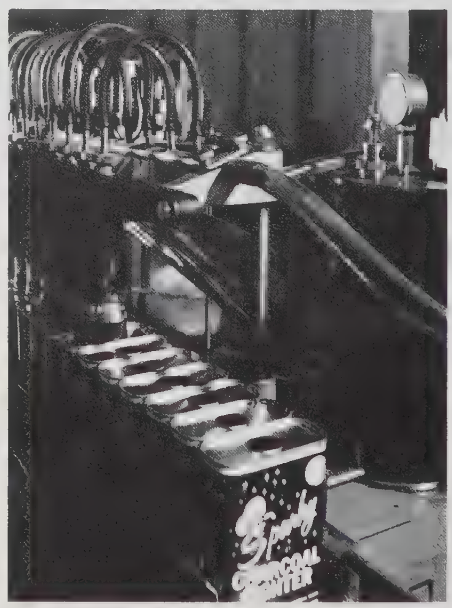
A new plant established earlier in Gary, Indiana, became fully operational in the second half of 1975. The plant substantially improves Gate City's central warehousing capacity and includes equipment unique in the steel service industry. The Gary facility will function as a "mother" warehouse to Gate City's other plants and is located adjacent to a number of large steel mills.

The new equipment, which is capable of decoiling and processing heavy gauge steel coils also allows for integrated slitting, shearing, stacking, conveying and banding in one continuous operation. The system has the capability of leveling steel coils up to six feet in width, one half inch in thickness and weighing as much as 40 tons, a service previously available only from steel mills.

Husky Industries

Husky Industries, an 80 per cent Husky owned subsidiary, manufactures barbecue briquets and activated carbon which is widely used in industrial and municipal water purification. The company has nine plants located mainly in the mid-western and eastern regions of the United States.

In 1975, Husky Industries achieved the highest revenues and earnings in the company's history. Sales increased to $27.2 million from $20.5 million and earnings before taxes improved from $600,000 the previous year to $3.2 million in 1975.



The substantial improvements in Husky Industries' operational and financial results were primarily due to increased sales of activated carbon with continued improvements in charcoal briquet tonnage and plant operations.

Sales of activated carbon increased almost 40 per cent in 1975 and further expansion of this area of operations is planned for 1976.

Previously a wholly-owned subsidiary, 20% of Husky Industries was sold to management in 1975.

Financial Review

Sales and operating revenues and net earnings set new records for Husky in 1975 for the fifth consecutive year. Net earnings increased to $36 million from a restated $29.5 million in 1974, after providing for current and deferred income taxes which increased to $31.5 million from a restated $23.1 million in 1974. Earnings per share were $3.64, an increase of 22% from the restated $2.98 earned in 1974 and represent a new high for the company.

Under the provisions of the United States "Tax Reduction Act of 1975" statutory percentage depletion was repealed, with limited exceptions, effective January 1, 1975. As a result the tax allocation method of accounting was retroactively adopted for timing differences related to lease acquisition, drilling and exploration costs in respect to United States operations. As a result of the above, 1974 earnings were restated to reflect a $4.2 million reduction in earnings, and 1975 earnings were reduced by $4.8 million.

The increase in earnings is attributable to improvements in U.S. petroleum operations, increased production income in Canada, and a record performance by the carbon operations.

Capital expenditures for 1975 of $68.1 million were $6.2 million greater than in 1974. Exploration and development expenditures in 1975 together totaled $50.9 million. Of this amount 9.7 million related to continuing activities, and $41.2 million was applied to other areas.

	Thousands of Dollars	
	1975	1974
Exploration	$ 19,664	16,989
Producing properties and pipeline facilities	31,248	21,081
Refining and marketing	10,078	20,376
Steel and other facilities	7,141	3,435
	$ 68,131	61,881

The capital expenditures in 1975 were financed out of working capital leaving long-term debt relatively unchanged.

The ratio of net earnings from operations, expressed as a per cent return on average total assets invested during each of the last 5 years, has now improved from a low point of 2.9% in 1971 to 8.7% in 1975. Although the rate of return has grown, it cannot yet be considered adequate and needs to be improved.

Lines of Business *(in millions)*	1975		1974		1973		1972		1971	
	Sales	Earnings	Sales	Earnings	Sales	Earnings	Sales	Earnings	Sales	Earnings
Petroleum production, refining and marketing										
Canada	$109.3	39.0	101.2	31.1	69.0	19.5	54.5	9.5	50.8	5.5
United States	256.1	19.3	234.3	13.5	122.7	4.2	102.1	1.5	97.2	3.9
Steel warehousing, processing and other	61.8	6.0	79.3	7.4	46.2	4.9	31.9	1.9	27.7	1.4
Briquetting	27.2	3.2	20.5	0.6	14.7	(2.0)	15.8	0.5	8.5	0.2
	$454.4	67.5	435.3	52.6	252.6	26.6	204.3	13.4	184.2	11.0
Income taxes and extra-ordinary items		31.5		23.1		10.3		4.3		2.5
Net earnings		36.0		29.5		16.3		9.1		8.5

6% Cumulative, Redeemable Preferred Shares, Series A ($50 par value)

		1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.
Price Per Share					
1975	High	37	36	36	33⅛
	Low	33	33	32	31¾
1974	High	41½	35	31½	30
	Low	41¼	35	31½	29

6% Cumulative, Redeemable Preferred Shares, Series B ($50 par value)

		1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.
Price Per Share					
1975	High	34¼	36	34	32
	Low	28½	31½	31¾	31
1974	High	41¼	34	32½	31½
	Low	39⅝	33½	32	29½

COMMON SHARES

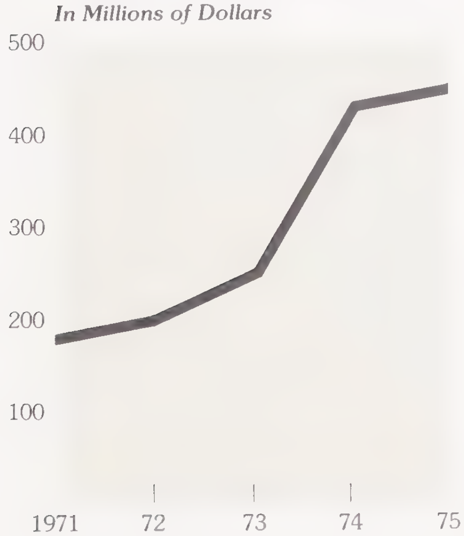
		1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.
Price Per Share					
1975	High	17⅜	21⅛	20⅝	19¾
	Low	11¼	14¼	17	16¾

DIVIDEND PER COMMON SHARE — 1975

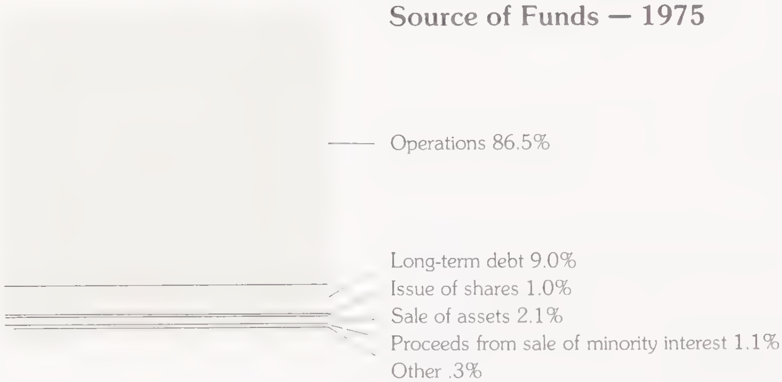
1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.
	25¢		40¢

Gross Operating Revenues

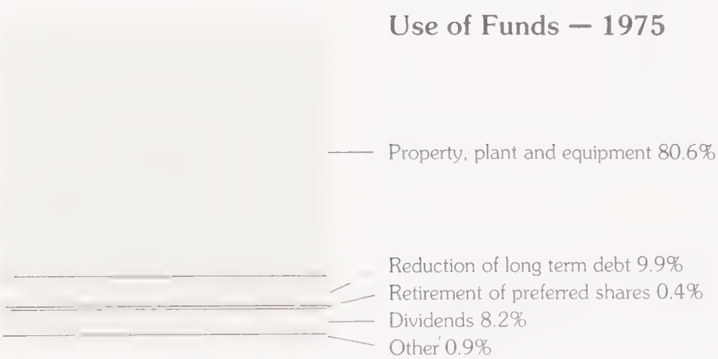
In Millions of Dollars



Source of Funds — 1975



Use of Funds — 1975



Consolidated Statements of Earnings

	Year ended December 31, 1975	1974 (Restated)
Sales and operating revenues	**$454,391,000**	435,306,000
Costs and expenses		
Cost of sales and operating expenses	**318,619,000**	321,694,000
Selling, general and administrative expenses	**28,249,000**	25,871,000
Interest (net of interest income of $644,000 in 1975 and $878,000 in 1974)	**9,413,000**	8,561,000
Miscellaneous — net	**(1,795,000)**	(476,000)
Depreciation and amortization	**16,570,000**	13,791,000
Depletion (note 3)	**15,796,000**	13,294,000
Minority interest in earnings of consolidated subsidiary (note 6)	**21,000**	—
	386,873,000	382,735,000
Earnings before income taxes	**67,518,000**	52,571,000
Income taxes (note 5)		
Current	**21,550,000**	17,592,000
Deferred	**9,950,000**	5,500,000
	31,500,000	23,092,000
Net earnings	**$ 36,018,000**	29,479,000
Earnings per common share (notes 5 and 8)		
Basic	**$3.64**	2.98
Fully diluted	**$3.24**	2.70

See accompanying notes to consolidated financial statements.

	Year ended December 31,			
	Other Paid-in Capital		Retained Earnings	
	1975	1974	1975	1974 (Restated)
Balance at beginning of year as previously reported	**$73,250,000**	72,815,000	**79,137,000**	50,217,000
Adjustment				
Retroactive adjustment to provide for deferred income taxes for timing differences (note 5)			**(9,000,000)**	(4,800,000)
As restated	**73,250,000**	72,815,000	**70,137,000**	45,417,000
Add				
Credit arising from excess of provision for sinking fund redemption of preferred shares over cost of shares redeemed			**88,000**	130,000
Excess of consideration received over par value of common shares issued (note 7)	**896,000**	435,000		
Net earnings			**36,018,000**	29,479,000
	74,146,000	73,250,000	**106,243,000**	75,026,000
Deduct				
Cash dividends				
Preferred shares			**559,000**	587,000
Common shares			**6,330,000**	3,883,000
Provision for redemption of preferred shares			**419,000**	419,000
	—	—	**7,308,000**	4,889,000
Balance at end of year	**$74,146,000**	73,250,000	**98,935,000**	70,137,000

See accompanying notes to consolidated financial statements.

HUSKY OIL LTD. AND SUBSIDIARIES

Consolidated Balance Sheets

ASSETS

	December 31, 1975	1974 (Restated)
Current Assets		
Cash	**$ 5,510,000**	10,182,000
Accounts and notes receivable	**66,029,000**	61,939,000
Inventories at lower of cost or net realizable value (note 2)	**57,104,000**	53,799,000
Prepaid expenses	**699,000**	330,000
Total current assets	**129,342,000**	126,250,000
Notes and contracts receivable and miscellaneous assets — at cost less amounts written off	**6,873,000**	6,155,000
Unrecovered costs — Santa Barbara project (note 3)	**7,207,000**	7,207,000
Property, plant and equipment — at cost (note 4)		
Oil and gas properties and equipment	**262,411,000**	215,981,000
Refining, manufacturing, marketing, transportation facilities and other assets	**182,051,000**	169,876,000
Accumulated depreciation and amortization	**(105,616,000)**	(91,184,000)
Accumulated depletion	**(56,425,000)**	(46,648,000)
	282,421,000	248,025,000
Unamortized debt issue costs	**3,387,000**	3,764,000
Other intangible assets — at cost less amounts written off	**2,318,000**	2,070,000
	$431,548,000	393,471,000

See accompanying notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY

	December 31, 1975	December 31, 1974 (Restated)
Current liabilities		
Notes payable to banks	**$ 9,500,000**	11,270,000
Accounts payable and accrued liabilities	**63,772,000**	58,210,000
Income taxes payable (note 5)	**10,124,000**	16,542,000
Long-term debt due within one year (note 4)	**6,200,000**	6,256,000
Total current liabilities	**89,596,000**	92,278,000
Long-term debt (note 4)	**100,473,000**	100,599,000
Deferred credits		
Deferred income taxes (note 5)	**45,140,000**	35,190,000
Other	**1,292,000**	1,520,000
	46,432,000	36,710,000
Minority interest in consolidated subsidiary (note 6)	**1,419,000**	—
Shareholders' equity (note 7)		
Cumulative, redeemable preferred shares, par value $50; authorized 623,500 shares, issued 181,612 shares in 1975 and 191,643 shares in 1974	**9,081,000**	9,582,000
Common shares, par value $1; authorized 40,000,000 shares, issued 9,761,433 shares in 1975 and 9,710,833 shares in 1974	**9,761,000**	9,711,000
Undistributable capital surplus arising from purchase and redemption of preferred shares	**1,705,000**	1,204,000
Other paid-in capital	**74,146,000**	73,250,000
Retained earnings	**98,935,000**	70,137,000
	193,628,000	163,884,000
Commitments (notes 11 and 12)		
	$431,548,000	393,471,000

Approved on behalf of the Board

James E. Nielson, Director

F. R. Matthews, Director

HUSKY OIL LTD. AND SUBSIDIARIES

Consolidated Statements of Changes in Financial Position

	Year ended December 31, 1975	1974
		(Restated)
Funds provided		
Net earnings	**$36,018,000**	29,479,000
Add amounts which were non-fund transactions	**41,998,000**	32,889,000
Working capital provided by operations	**78,016,000**	62,368,000
Issue of common shares (note 7)	**946,000**	463,000
Proceeds from sale of minority interest in subsidiary (note 6)	**1,000,000**	—
Sale of assets	**1,916,000**	3,104,000
Issue of long-term debt	**8,095,000**	10,012,000
Other	**287,000**	1,044,000
	90,260,000	76,991,000
Funds used		
Additions to property, plant and equipment	**68,131,000**	61,881,000
Reduction in long-term debt	**8,355,000**	10,785,000
Retirement of preferred shares	**331,000**	289,000
Dividends		
Common shares	**6,330,000**	3,883,000
Preferred shares	**559,000**	587,000
Increase in notes receivable and miscellaneous assets	**780,000**	1,953,000
	84,486,000	79,378,000
Increase (decrease) in working capital	**$ 5,774,000**	(2,387,000)
Changes in components of working capital		
Increase (decrease) in current assets		
Cash	**$(4,672,000)**	3,213,000
Receivables	**4,090,000**	21,932,000
Inventories	**3,305,000**	15,942,000
Prepaid expenses	**369,000**	(135,000)
	3,092,000	40,952,000
Increase (decrease) in current liabilities		
Notes payable	**(1,770,000)**	4,923,000
Accounts payable and accrued liabilities	**5,562,000**	23,228,000
Income taxes payable	**(6,418,000)**	15,073,000
Long-term debt due within one year	**(56,000)**	115,000
	(2,682,000)	43,339,000
Increase (decrease) in working capital	**$ 5,774,000**	(2,387,000)

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements December 31, 1975 and 1974

1. Accounting Policies

The consolidated financial statements include the accounts of all subsidiaries after elimination of significant inter-company accounts and transactions. United States subsidiaries are included at $1.00 U.S. = $1.00 Cdn.

The companies employ the "full-cost" method of accounting and capitalize all North American exploration and reserve development costs. These costs are depleted on composite unit-of-production methods based upon proved developed reserves, as estimated by company engineers.

The cost of acquiring oil and gas interests outside of North America, and all mining interests, have been capitalized pending the outcome of exploration in each area of interest. These costs are being amortized at an annual rate of 20% pending reserve development. Unamortized costs will be depleted by the method set forth above if sufficient reserves are developed. The unamortized costs of an abandoned area are charged against earnings at the time of abandonment. Unamortized costs at December 31, 1975 and 1974 amounted to $3,951,000 and $2,191,000 respectively.

Depreciation of certain producing lease equipment is provided by the unit-of-production method. Depreciation of substantially all other depreciable assets is provided by the straight-line method at rates based upon their estimated useful lives as follows:

Classification	Rate
Refining and marketing facilities including buildings and refinery equipment	2.5 - 20%
Transportation facilities and equipment	5.0 - 50%
Lease equipment (excluding equipment depreciated by unit-of-production method)	7.1 - 10%
Other depreciable assets	Various

Substantially all inventories are valued at cost on a last-in, first-out basis. (See note 2). Other inventories are stated at average cost.

Other intangible assets with limited economic lives are being amortized on a straight line basis over their estimated lives.

The companies follow the tax allocation basis of accounting for all timing differences between net earnings and taxable income. (See note 5).

The retirement and pension plans of the Company and its subsidiaries are contributory and are available to substantially all permanent employees. The policy is to fund accrued pension costs as determined by actuarial studies. The unfunded past service costs are being funded and charged to operations over periods ranging from 10 to 20 years.

2. Inventories

In 1974, the companies adopted the last-in, first-out (LIFO) method of determining cost for substantially all inventories. Prior to 1974, the cost of inventories was determined on the first-in, first-out (FIFO) method. The LIFO method was adopted to achieve a better matching of current costs and current revenues. Had the FIFO method been used, the inventory would have been approximately $22,699,000 and $21,123,000 higher than reported at December 31, 1975 and 1974 respectively.

3. Unrecovered Costs — Santa Barbara Project

Unrecovered costs of the Santa Barbara project represent the unamortized cost of oil and gas leases off the coast of California acquired in 1968 which expired in 1973. In February, 1969, the Secretary of the Interior of the United States of America amended the regulations relating to drilling for oil and gas on the outer continental shelf and imposed an unlimited liability regardless of fault for damage caused by oil escaping. The Secretary also suspended drilling on these leases. These actions made it economically and practically impossible to continue further exploration. As a result, exploratory operations on the leases were discontinued and several companies including Husky Oil Company of Delaware filed suit against the United States of America requesting repayment of acquisition and exploratory costs incurred or compensation for the value of the leases. The trial was completed in 1972 and a decision is still pending. In the opinion of counsel for the companies, it is impossible to predict the outcome of this litigation at this time. In the year the suit is settled or dismissed it is contemplated that any costs which are not recovered by the suit will be added to depletable costs. Had total costs been taken into depletable costs in 1975 or 1974, the effect on net earnings would not have been material.

4. Long-term Debt

Long-term debt at December 31 consisted of:

	1975	1974
	(in thousands)	
Husky Oil Ltd. and Canadian Subsidiaries (stated in Cdn. $)		
Secured		
Sinking fund debentures		
6% Series A, due in 1984	$11,365	12,111
6-3/4% Series B, due in 1987	16,350	16,970
8-1/2% Series C, due in 1991	13,845	14,236
Notes payable		
1/4% over prime — $117,000 due monthly, balance due October 31, 1980	7,001	—
Other	497	48
	49,058	43,365
Husky Oil Company of Delaware and United States Subsidiaries (stated in U.S. $)		
Secured		
6-3/4% bonds, due in 1978	1,365	1,815
Notes payable		
5/8% over prime — $417,000 due quarterly, balances due December 31, 1979 to 1980	17,500	19,166
6% — $313,000 due quarterly, balance due December 31, 1975	—	1,250
Other	3,134	3,404
Long-term lease obligations	1,047	1,462
Unsecured		
6-1/4% convertible subordinated debentures due in 1997 with sinking fund payments from 1983 to 1996	22,475	23,485
Notes payable		
7% — due annually from 1975 to 1989	6,619	7,092
3/4% over prime — $100,000 due quarterly, balance due September 30, 1977	1,692	1,808
8-1/2% — effective rate, $65,000 including interest due quarterly to 1981, $78,000 including interest due quarterly thereafter, balances due October 1, 1983 to 1991	2,414	2,547
7% — $397,000 including interest due annually, balance due January 4, 1977	718	1,043
Other	651	418
	57,615	63,490
Total long-term debt	106,673	106,855
Less amount due within one year	6,200	6,256
	$100,473	100,599

Interest on long-term debt was $8,174,000 and $7,753,000 in 1975 and 1974 respectively. Assets of subsidiaries with an aggregate cost of approximately $71,443,000 and $86,881,000 on December 31, 1975 and 1974 respectively are specifically pledged as collateral. Additionally, the common shares of Husky Oil Operations Ltd. and Husky Oil Company of Delaware, wholly owned subsidiaries, have been pledged by the Company.

Aggregate annual maturities of long-term debt for the five years subsequent to December 31, 1975 are: 1976 - $6,200,000; 1977 - $8,602,000; 1978 - $6,858,000; 1979 - $11,468,000; 1980 - $10,326,000.

5. Income taxes

Prior to 1974, the companies followed the tax allocation method of accounting for timing differences between net earnings and taxable income, except for such differences relative to lease acquisition, drilling and exploration costs. Effective January 1, 1974, in accordance with a ruling of the Canadian Provincial Securities Administrators, the Canadian companies retroactively adopted the tax allocation method of accounting for these timing differences in respect of Canadian operations. Under the provisions of the United States "Tax Reduction Act of 1975" statutory percentage depletion was repealed with limited exceptions effective January 1, 1975. As a result, as of January 1, 1975, the tax allocation method of accounting was retroactively adopted for timing differences related to lease acquisition, drilling and exploration costs in respect of United States operations.

The change relative to United States operations reduced previously reported 1974 net earnings by $4,200,000 ($0.43 per share) and reduced 1975 net earnings by $4,800,000 ($0.49 per share).

The income taxes charged to earnings for the years ended December 31, 1975 and 1974 are made up of the following components:

	Canada Federal and Provincial	U.S. Federal and State	Total
		(in thousands) 1975	
Current taxes	$14,050	7,500	21,550
Deferred taxes	5,150	4,800	9,950
	$19,200	12,300	31,500
		1974 (Restated)	
Current taxes	$14,906	2,686	17,592
Deferred taxes	1,300	4,200	5,500
	$16,206	6,886	23,092

Total income taxes amounted to $31,500,000 in 1975 and $23,092,000 in 1974 (restated), an effective rate of approximately 47% in 1975 and 44% in 1974. These totals are less than the amount of $33,759,000 in 1975 and $26,286,000 in 1974 computed by applying the combined expected Canadian Federal and Provincial tax rates of approximately 50% to earnings before income taxes. The reasons for these differences are as follows:

	1975		1974	
	Amount (in thousands)	% of Pretax Income	Amount (in thousands) (Restated)	% of Pretax Income
Computed "expected" tax expense	$33,759	50	26,286	50
Increase (decrease) in taxes resulting from:				
Royalties, lease rentals and mineral taxes payable to the Crown, net of Provincial rebates	10,422	16	5,182	10
Tax rate reduction on post May 6, 1974 Canadian production income	(5,271)	(8)	(1,184)	(2)
Tax depletion on Canadian production income	(5,275)	(8)	(4,252)	(8)
Income subject to United States taxes at a lower effective rate	(1,907)	(3)	(3,558)	(7)
Miscellaneous	(228)		618	1
	$31,500	47	23,092	44

Income tax expense has been reduced by investment tax credits in the amount of $1,800,000 in 1975 and $998,000 in 1974.

6. Minority Interest

During 1975, Husky Industries, Inc. issued 25 shares of stock to certain officers of that company for $1,000,000 cash. The new shares represent a 20% minority interest. All other subsidiaries are wholly owned.

7. Capital Shares

The Series A and B preferred shares require annual sinking funds to redeem 2,100 Series A shares at $53.50 per share and 5,850 Series B shares at $52.50 per share.

At December 31, preferred shares were issued and outstanding as follows:

	1975	1974
Series A — 6%	47,343	50,143
Series B — 6%	134,269	141,500
	181,612	191,643

Common shares issued during the years ended December 31, 1975 and 1974 as follows:

Number Common Shares	Consideration	Credited to Share Capital	Credited to Other Paid-in Capital
		(in thousands)	
	1975		
6,250	Cash (issued on exercise of stock options)	$ 6	68
8,600	Stock bonus	9	148
35,750	Conversion of convertible debentures	35	680
50,600		$50	896
	1974		
17,108	Cash (issued on exercise of stock options and stock purchase warrants)	$17	228
10,900	Conversion of convertible debentures	11	207
28,008		$28	435

Common shares have been reserved for issue as follows:

1975	1974	
299,960	299,960	Shares for Series E stock purchase warrants at exercise prices escalating from $18.00 to $21.00 per share expiring August 15, 1981.
22,050	28,300	Shares under a share option plan for officers and employees at prices ranging from $6.77 to $12.94 per share and which generally expire in the year following termination of employment.
1,123,750	1,174,250	Shares for conversion of 6-1/4% convertible subordinated debentures at $20.00 per share until 1997.
191,400	200,000	Shares under a stock bonus plan for key employees until December 31, 1989.
1,637,160	1,702,510	

The shareholders at the Annual Meeting on May 3, 1974 approved a stock bonus plan for key employees of the Company and its subsidiaries. 200,000 shares of common stock were reserved for issue until December 31, 1989, not to exceed 50,000 shares in any calendar year. The Executive Compensation Committee of the Board of Directors has authorized stock bonus awards, each award to be issued over a period of 5 years, totaling 97,500 shares to December 31, 1975 of which 8,600 shares have been issued.

8. Earnings Per Share

Basic earnings per common share are based on the weighted average number of common shares outstanding during the year. Fully diluted earnings per share are computed as if all

outstanding options, warrants or conversion privileges were exercised at the beginning of the year.

9. Pension and Retirement Plans

Total pension expense was $2,039,000 and $1,537,000 for 1975 and 1974 respectively, which includes amortization of the past service costs. Based on actuarial reports, the assets of the plans exceed the total actuarially computed value of vested benefits for employees.

During 1975, amendments were made to various pension plans, including the assumptions made for funding, which increased the unfunded past service costs by $2,334,000. The major increase resulted from the recognition of past service costs by one subsidiary relating to all past plan amendments which previously had been included in the normal contributions. The change was necessary to establish a Minimum Funding Standards Account as required by the United States "Employee Retirement Income Security Act". Other changes include a more generous benefit formula and a lower normal retirement age. The provision for pension expense increased approximately $187,000 in 1975 because of these amendments. The unfunded past service costs amounted to $2,866,000 at December 31, 1975.

10. Officers and Directors Remuneration

The Company had 10 directors and 18 officers, 2 of whom served in both capacities during 1975 and 1974. Remuneration was as follows:

	Directors		Officers	
Paid by	1975	1974	1975	1974
	(in thousands)			
Husky Oil Ltd.	$ 45	44		
Husky Oil Operations Ltd.			329	238
Husky Oil Co. of Delaware	69	77	850	685
Gate City Steel Corp.			89	91
Husky Industries, Inc.				3
	$114	121	1,268	1,017

11. Lease Commitments

For purposes of the following disclosure the Company has made a distinction between "financing" lease arrangements and other lease arrangements. A "financing" lease is one which, during the noncancellable lease period, either (1) covers 75 percent or more of the economic life of the property, or (2) has terms which assure the lessor a full recovery of the fair market value of the property at the inception of the lease, plus a reasonable return on his investment.

Rental expense, reduced by related income from subleases, for other than capitalized lease obligations (note 4) and oil and gas lease rentals for the two years ended December 31, 1975 was as follows:

	Year ended December 31,	
	1975	1974
	(in thousands)	
"Financing" leases		
Basic rent	$3,094	3,045
Other leases		
Basic rent	2,393	1,765
Contingent rentals	526	447
Sublease rentals	(1,383)	(1,234)
	$4,630	4,023

Contingent rentals paid to lessors of certain service stations are determined on the basis of volumes in excess of stipulated minimums.

At December 31, 1975, the Company was committed under noncancellable leases other than capitalized lease obligations (note 4) for minimum annual rentals as follows:

	Type of Property				Total	
Year ending December 31,	Service Stations	Refinery Equipment	Aircraft	Transportation, Office and Other Equipment	"Financing" Leases	Other Leases
	(in thousands)					
1976	1,550	1,029	192	1,940	3,179	1,532
1977	1,500	1,029	147	1,546	3,042	1,180
1978	1,406	1,029	12	655	2,276	826
1979	1,351	1,029		600	2,244	736
1980	1,289	1,029		567	2,238	647
1981 - 1985	5,872	5,146		1,528	10,564	1,982
1986 - 1990	3,911	772			4,680	3
1991 - 1995	2,705				2,705	
Thereafter	486				486	

The above amounts are exclusive of taxes, insurance, maintenance and other operating expenses which are obligations of the Company and rentals from cancellable subleases.

Present values of basic rental commitments for noncapitalized "financing" leases based on interest rates implied by the terms of the leases are as follows:

	Present value of noncapitalized financing leases	
	1975	1974
	(in thousands)	
Service stations	$ 8,653	8,972
Refinery equipment	6,815	7,066
Aircraft	301	458
Transportation, office and other equipment	2,099	2,057
	$17,868	18,553

Interest rates used to calculate the above present values range from 12.7% to 4.1% and the weighted average annual interest rate is 9.6% in 1975 and 9.5% in 1974.

If all noncapitalized "financing" leases had been capitalized, there would have been no material effect on net earnings.

12. Commitments

A subsidiary company has entered into an agreement to purchase $23,400,000 of crude oil during the four year period expiring December 31, 1977. The Company had $13,140,000 remaining per the agreement at December 31, 1975, which served as collateral for $13,140,000 of bank borrowings of an intermediary made for the benefit of the seller. The borrowings will be repaid by the seller if it fails to deliver the minimum amount of crude oil required by the agreements; such repayment by the seller being guaranteed by a major United States bank.

A subsidiary company is subject to the regulations of the United States Federal Energy Administration (F.E.A.). These include, in the United States, mandatory allocation of available supplies of both crude oil and refined product and controls governing the prices which may be paid and received for crude oil and refined products. The F.E.A. is presently auditing the subsidiary. The audit has not been completed and it is not known at this time what the ultimate outcome will be.

13. Subsequent Transactions

One of the Company's principal United States subsidiaries, Husky Oil Company of Delaware, is currently negotiating for a $25,000,000 (U.S.) loan bearing interest at 11-1/4%. The agreement calls for repayment of the loan with annual payments in each year 1979 through 1991. The loan will be guaranteed by the Company and its subsidiary, Husky Oil Operations, Ltd.

The Company is proceeding with plans for the construction of a 30,000 barrel per day crude oil refinery near the city of Lloydminster, Alberta. Total cost is estimated at $75,000,000 of which $8,100,000 is reflected in the financial statements. Completion of the construction is scheduled for mid-1978.

[illegible]

We have examined the consolidated balance sheets of Husky Oil Ltd. and subsidiaries as of December 31, 1975 and 1974 and the related consolidated statements of earnings, other paid-in capital and retained earnings and changes in financial position for the years then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, subject to any adjustment which may result from the ultimate outcome of the litigation concerning the Santa Barbara project pending since 1969, as described in note 3, these consolidated financial statements present fairly the financial position of the company and subsidiaries as of December 31, 1975 and 1974 and the results of their operations and the changes in their financial position for the years then ended, in accordance with generally accepted accounting principles, which, except for the change in the method of providing for income taxes (note 5), with which we concur, have been applied on a consistent basis, as restated.

PEAT, MARWICK, MITCHELL & CO.
Chartered Accountants

Calgary, Alberta.
January 30, 1976

Management's Discussion and Analysis of the Financial and Operating Summary

The following discussion further explains the significant variances found in the financial and operating summary for 1975 and 1974 compared with the previous year.

1975 Compared to 1974

Sales and operating revenues increased $19,085,000 (4%), principally as a result of price increases. While the net volume of crude oil production increased about 2%, net production volume of natural gas decreased 10% and the volume of refined product sold decreased approximately 5%. The decrease in net natural gas production reflects significantly higher royalty taxes in Canada. Additionally, revenues from steel actitvities decreased 22% because of the light demand for steel during the earlier part of 1975. Revenues from charcoal activities increased 33% including a volume increase of approximately 2%.

Costs and operating, selling and general expenses decreased $697,000, mainly as a result of decreased costs from steel activities of approximately $16,000,000 (25%). A general price increase including labor, crude oil, refined products purchased, etc., caused other costs to increase approximately 5%.

Miscellaneous — net increased $1,319,000 (277%) caused mainly by income in 1975 in excess of 1974 from the sale and disposal of assets, an insurance settlement, and net gains on foreign currency transactions.

Depreciation, depletion and amortization increased $5,281,000 (19%). The increased depreciation of $2,778,000 resulted from additional investment in depreciable assets combined with a higher rate for certain properties depreciated on a unit-of-production method which resulted from revaluation of related petroleum reserves. Depletion increased $2,502,000 reflecting greater expenditures for exploration in 1975.

Income taxes increased $8,408,000 (36%) reflecting higher earnings and, in the United States, the loss of statutory percentage depletion and the utilization of all remaining investment tax credit carry forwards. Deferred income taxes increased 81% primarily because of the increased exploration activity and the adoption of the last-in, first-out method of valuing inventories in Canada in 1974.

1974 Compared to 1973

Sales and operating revenues increased $182,708,000 (72%). This increase was caused by several factors, the predominant being the significant increase in crude oil prices. The production of crude oil and natural gas was down slightly in volume, but the sale of refined products increased about 9%. Revenue from steel and charcoal operations also increased substantially, as a result of both volume and price increases.

Costs and operating, selling and general expenses increased $153,744,000 (70%), which reflects higher volumes and prices for crude oil and refined product purchases. The increase includes a charge of $21,123,000 relating to the adoption of the last-in, first-out (LIFO) method of valuing inventories. Additionally, higher payroll costs and related benefits along with general price increases in other areas contributed to the increase.

Miscellaneous — net decreased by $1,976,000 (132%), which can be attributed to unusual charges in 1973 for disposal and write off of assets, write off of abandoned foreign exploration costs and for loss on the liquidation of a joint venture. Gain on the redemption of debentures also increased in 1974.

Depreciation, depletion and amortization increased $4,631,000 (21%). Depreciation increased about 16% which corresponded closely to the increase in investment in depreciable assets.

Depletion increased approximately 25%. Even though production was down slightly, the unit-of-production depletion rate increased substantially, which reflects the high cost of finding new reserves.

Income taxes increased $12,839,000 (125%), which reflects both the increased earnings of the Company and the introduction of budget proposals by the Canadian Federal and Provincial Governments, certain of which are retroactive to May 6, 1974.

The implementation of the full tax allocation basis of accounting and the utilization of previously accumulative exploration and development expenditures in 1973 resulted in substantially greater deferred income taxes in 1973 than in 1974.

HUSKY OIL LTD. AND SUBSIDIARIES

Financial and Operating Summary

	1975	1974	1973	1972	1971	1970	1969	1968	1967	1966
Financial (thousands of dollars except per share figures)										
Sales and operating revenues	**$454,391**	435,306	252,598	204,324	184,185	176,226	163,493	153,663	90,197	66,943
Equity in earnings of Empire State Oil Company	**—**	—	—	—	1,494	758	—	—	—	—
	454,391	435,306	252,598	204,324	185,679	176,984	163,493	153,663	90,197	66,943
Costs and operating, selling and general expenses	**346,868**	347,565	193,821	161,563	146,683	143,770	131,674	123,110	67,401	47,463
Interest (net of interest income)	**9,413**	8,561	8,249	8,637	9,887	9,261	8,264	6,981	4,486	3,068
Miscellaneous — net	**(1,795)**	(476)	1,500	621	(663)	702	(558)	(262)	(55)	(100)
Depreciation, depletion and amortization	**32,366**	27,085	22,454	19,721	18,239	15,490	15,493	14,758	10,148	9,319
Minority interest in earnings of subsidiaries	**21**	—	—	309	546	644	755	780	617	680
	386,873	382,735	226,024	190,851	174,692	169,867	155,628	145,367	82,597	60,430
Earnings before income taxes and extraordinary items	**67,518**	52,571	26,574	13,473	10,987	7,117	7,865	8,296	7,600	6,513
Income taxes										
Current	**21,550**	17,592	1,914	(2,686)	72	143	—	—	—	—
Deferred	**9,950**	5,500	8,339	7,042	2,469	649	1,615	3,594	3,997	—
	31,500	23,092	10,253	4,356	2,541	792	1,615	3,594	3,997	—
Earnings before extraordinary items	**36,018**	29,479	16,321	9,117	8,446	6,325	6,250	4,702	3,603	6,513
Extraordinary items — net	**—**	—	—	1,338	—	(1,033)	—	1,977	474	—
Net earnings	**36,018**	29,479	16,321	10,455	8,446	5,292	6,250	6,679	4,077	6,513
Dividends on preferred shares	**559**	587	612	644	665	694	716	740	1,616	1,331
Earnings for common shares	**$ 35,459**	28,892	15,709	9,811	7,781	4,598	5,534	5,939	2,461	5,182
Common shares outstanding (in thousands) (weighted average from 1968)	**9,730**	9,704	9,579	9,536	9,416	9,411	9,405	8,723	6,644	6,431
Earnings per common share										
From operations	**$ 3.64**	2.98	1.64	.89	.83	.60	.59	.45	.30	.81
Extraordinary items — net	**—**	—	—	.14	—	(.11)	—	.23	.07	—
	$ 3.64	2.98	1.64	1.03	.83	.49	.59	.68	.37	.81
Dividends per common share	**$ .65**	.40	.15	.15	.15	.15	.30	.30	.30	.15
Preferred shares outstanding at par value	**9,081**	9,582	9,991	10,388	11,826	12,221	12,620	12,392	27,376	27,770
Working capital provided by operations	**78,016**	62,368	49,155	33,820	29,282	23,288	24,244	24,165	18,672	16,203
Capital expenditures	**68,131**	61,881	46,736	35,044	34,656	47,209	39,535	36,103	39,811	31,649
Working capital	**39,746**	33,972	36,359	29,232	15,999	16,750	15,388	22,901	15,072	18,783
Long-term debt	**100,473**	100,599	101,220	98,415	111,144	109,052	100,371	91,719	76,257	53,973
Operations										
Production — Daily Average										
Net crude oil and gas liquids — bbls	**43,949**	43,015	43,984	41,482	38,345	33,265	31,663	30,742	26,197	22,178
Natural gas — mcf	**58,994**	65,460	73,868	76,539	67,271	49,293	46,236	47,571	45,828	44,518
Refining and marketing — Daily Average Barrels										
Refinery runs	**56,220**	59,116	50,828	48,624	50,185	50,044	47,893	45,802	20,248	18,387
Refined product sales	**60,541**	63,958	58,662	55,330	53,285	56,961	52,730	48,662	21,750	19,323

Note: *The years 1967 through 1974 have been restated. See note 5 of the Notes to Consolidated Financial Statements. Income tax allocation was required in both Canada and the United States beginning in 1967. Accordingly, years prior to 1967 do not include a provision for deferred income taxes. The accumulated amount of Canadian and United States taxes at December 31, 1966 was $4,283,000.*

Corporate Information

Officers

GLENN E. NIELSON
Chairman of the Board

JAMES E. NIELSON
President

R. M. McMANIS
Executive Vice-President

R. STROTHER
Senior Vice-President

J. M. WILKINSON
Senior Vice-President

J. A. WILLIAMS
Senior Vice-President

E. R. BLASKEN
Vice-President

G.S. DIBBLE, JR.
Vice-President

M. D. ENSIGN
Vice-President

J. G. McKENZIE
Vice-President

R. Y. POGONTCHEFF
Vice-President

J. V. SHEFFIELD
Vice-President

M. F. WESTFALL
Vice-President

J. H. MANNING
Executive Vice-President
Husky Oil (International), Inc.

D. H. FLORA
Secretary
General Counsel

L. E. SAUNDERS
Treasurer and Controller

J. W. RIMMER
President
Gate City Steel

J.P. KEETER
President
Husky Industries, Inc.

Directors

GLENN E. NIELSON
Cody, Wyoming
Chairman of the Board
Husky Oil Ltd.

JAMES E. NIELSON
Cody, Wyoming
President
Husky Oil Ltd.

J. WADDY BULLION
Dallas, Texas
Partner, Law firm of
Thompson Knight
Simmons and Bullion

GEORGE S. ECCLES
Salt Lake City, Utah
President and a Director
of First Security
Corporation and Chairman
of First Security Bank
of Utah

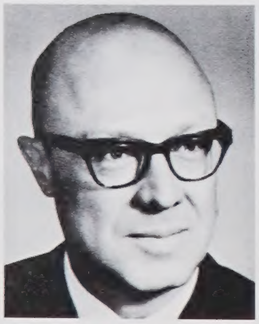
DAVID M. KENNEDY
Chicago, Illinois
Retired Banker

J. K. McCAUSLAND
Willowdale, Ontario
Retired Investment Dealer

F. R. MATTHEWS, Q.C.
Calgary, Alberta
Partner, Law firm of
MacKimmie, Matthews

H. H. MILLAR
Edmonton, Alberta
President and a Director
of Western Construction and
Lumber Co. Ltd.

WARD C. PITFIELD
Toronto, Ontario
President and a Director
of Pitfield, MacKay,
Ross & Company, Limited



In Memoriam
Paul L. Kartzke 1912 - 1975

From 1970 until his death on September 7, 1975, Paul L. Kartzke served Husky Oil as a Director and a member of the Board's Executive Committee.

Mr. Kartzke made many contributions to Husky and was an ever-ready source of advice and counsel in all facets of the company's operations. He drew upon a lifetime's wealth of experience in all aspects of the petroleum industry in both Canada and the United States.

His wisdom, wit and human insight into the interworkings of an integrated company were a great resource upon which Management could call. He was held in high esteem and very much admired by all who came in contact with him.

Our shareholders and employees have benefited immeasurably from his service to Husky. He is greatly missed.

HUSKY OIL

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OVERSEAS
Manila, Luzon
Philippines

DIVISION PRODUCTION OFFICES
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Santa Maria, California

REFINERIES
Cheyenne, Wyoming
Cody, Wyoming
Lloydminster, Alberta
Salt Lake City, Utah

DIVISION MARKETING OFFICES
Denver, Colorado
Billings, Montana
Salt Lake City, Utah
Calgary, Alberta
Winnipeg, Manitoba
Spokane, Washington

HUSKY INDUSTRIES, INC.
62 Perimeter Center East
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30346

SALES OFFICES:
Minneapolis, Minnesota
Ocala, Florida
Scotia, New York

PLANT LOCATIONS:
Branson, Missouri
Cookeville, Tennessee
Dickinson, North Dakota
Isanti, Minnesota
Memphis, Tennessee
Ocala, Florida
Romeo, Florida
Stamford, New York
Waupaca, Wisconsin

GATE CITY STEEL CORPORATION
P.O. Box 14022
Omaha, Nebraska
68114

DISTRICT OFFICES:
Albuquerque, New Mexico
Boise, Idaho
Chicago, Illinois
Davenport, Iowa
Denver, Colorado
Gary, Indiana
Idaho Falls, Idaho
Omaha, Nebraska
Pocatello, Idaho
Salt Lake City, Utah
Sterling, Illinois
Tulsa, Oklahoma

TRANSFER AGENTS AND REGISTRARS

COMMON SHARES:
Montreal Trust Company
Offices at Calgary, Halifax, Montreal, Regina, Saint John, Toronto, Vancouver and Winnipeg

The Chase Manhattan Bank
New York City

PREFERRED SHARES:
Montreal Trust Company
At above offices

AUDITORS
Peat, Marwick, Mitchell & Co.
Calgary, Alberta

Bulletin Commercial

Husky Oil/Annual Report 1975